

October 27, 1998

**To:** Board of Directors (Budget and Finance Committee--Information)

**From:** General Manager \_\_\_\_\_

**Submitted by:** Lambertus H. Becker  
Chief Financial Officer \_\_\_\_\_

**Subject:** September 1998 Variance Report

## RECOMMENDATION

For information only.

## REPORT

### **First Quarter Report**

The budget versus actual variance report for the quarter ending September 30, 1998, is attached for your review. Explanations are provided for variances when actual receipts or expenditures vary from budget by  $\pm$  \$500,000 and the difference is at least 10 percent.

Receipts totaled \$178.6 million. This was \$12.9 million or 6.8 percent under budget. This variance was primarily caused by overall low sales as well as lower sales of treated water during May, June and July than budget. These receipts combined with the use of \$10.2 million of prior year Pay-As-You-Go (PAYG) funds, \$152.6 million of debt proceeds for construction, and \$123.3 million of moneys (working capital) in the revenue remainder fund provided \$464.7 million to fund first quarter expenditures. Expenditures totaling \$464.7 million were \$24.9 million over budget. The variance is primarily due to higher than anticipated expenditures on the Capital Improvement Program (CIP) and the timing of O&M expenditures. The CIP variance is mainly attributable to construction expenditures to date for the Inland Feeder Project. Contractors for the Arrowhead East Tunnel, the Arrowhead West Tunnel, the Riverside north pipeline, and the Riverside south pipeline are ahead of schedule. Detailed explanations are provided in Attachment A.

### **Year-End Projections**

Operating receipts are projected to be \$829.2 million which is \$14.5 million, or 1.7 percent, under budget. This is primarily due to reduced water sales. Water sales are projected to be approximately 1.551 million acre-feet compared to the budget of 1.6 million acre-feet. Use of debt proceeds for construction is projected to be \$490.9 million which is approximately \$40 million over budget. This is mostly due to higher expenditures this fiscal year for the Inland Feeder Project as construction is ahead of schedule. It is also anticipated that approximately \$53.9 million will be used from the Water Rate Stabilization Fund (WRSF) to cover expenses.

Use of PAYG reserves will match the budget estimate of \$15 million. Total sources of funds are estimated to be \$1.389 billion for the year.

Projected year-end obligations, excluding construction financed through debt and PAYG reserves, are estimated to be \$883.0 million. This is \$7.2 million under the budgeted amount of \$890.2 million. The variance is due to higher O&M charges under the State Water Contract for aqueduct repair offset by lower Colorado River supply and MWD O&M costs.

Construction expenditures financed from debt proceeds and PAYG reserves are projected to be \$506 million. This is approximately \$40 million over budget. The variance is primarily associated with the Inland Feeder Project. Payments to Inland Feeder Project contractors are higher than budgeted this fiscal year because the project is running ahead of schedule. It should be noted that the total project costs are within budget. Eastside Reservoir costs are estimated to be about \$8 million over budget for the fiscal year. Total construction expenditures, including General Fund and current year PAYG expenditures, are projected to be \$618.3 million.

Based on these revenues and costs, it is projected that approximately \$53.9 million from the WRSF will be used. Under the current reserve policy, the balance in the WRSF is projected to be approximately \$47.1 million at year end.

MF/mb

**Attachment 9-5A**

**Attachment 9-5B**

**Attachment 9-5A****CASH BASIS SUMMARY  
VARIANCE EXPLANATIONS****Through September 30, 1998***Criteria: (plus or minus) \$500,000 and 10 percent variance***RECEIPTS:**

- (a) Revenues from Readiness to Serve Charges are \$2.6 million over budget through September. It is anticipated that by year end RTS charges will equal budget.
- (b) Power recoveries and miscellaneous receipts are approximately \$800,000 under budget through September. Lower water sales during the first quarter have reduced power generation from the District's hydroelectric power plants.
- (c) Use of Debt Proceeds for Construction (see explanation for item (i)).

**EXPENDITURES**

- (d) Colorado River Supplies are approximately \$2.0 million under budget through September mainly due to less water delivered through the Colorado River Aqueduct and lower costs for power than were anticipated in the budget.
- (e) PAYG construction is under budget by \$17.7 million through September. This is mainly due to the timing of construction disbursements to date, PAYG expenditures for the fiscal year will total budgeted amounts.
- (f) Expenditures for Union Station Headquarters and Other costs paid from the General Fund is over budget due to the timing of cash payment for construction of the headquarters building. Staff anticipates that actual expenditures will equal budget by the end of the fiscal year.
- (g) MWD O&M is \$8.4 million over budget through September due to timing of expenditures. The costs of some conservation programs that were implemented last year were not billed until this year. This accounts for approximately \$3.5 of the variance. Currently, it is anticipated that the conservation credits program will match budget estimates at year end. The balance of the variance is the result of a misallocation of budget factors for payroll purposes in September. Overall, MWD O&M is expected to be approximately \$3 million under budget for the year.
- (h) Net expenditures for the Local Resources Program are under budget through September due to the lag time associated with receiving invoices from the member agencies for production of recycled water. It is anticipated that costs will match budget at year end.
- (i) Debt Financed Construction Expenditures are 27.5 percent over budget through September. The over budget variance is mainly attributable to construction expenditures to date for the Inland Feeder Project. Contractors for the Arrowhead East Tunnel, the

Arrowhead West Tunnel, the Riverside north pipeline, and the Riverside south pipeline are ahead of schedule. As a result, the Inland Feeder expenditure plan for FY 1998/99 will be exceeded by \$47 million; however, total projected costs are projected not to exceed the appropriation. In addition, the Eastside Reservoir Project costs for the first quarter are approximately 7 percent ahead of plan. This is attributable to better than anticipated construction progress for the quarter on the West, Saddle, and East Dam contracts compared to projections included in the FY1998/99 capital plan. Overall, the FY 1998/99 plan for ESRP remains unchanged at \$342 million.

**Attachment 9-5B  
BUDGET VS. COST REPORT**

**July 1, 1998 to September 30, 1998  
CASH BASIS  
( \$ in Thousands )**

<u>FISCAL YEAR 1998-99</u>	ANNUAL BUDGET	BUDGET THROUGH SEPT. 1998	ACTUAL THROUGH SEPT. 1998	VARIANCE		(5) X- REF.
				DOLLARS	PERCENT	
<b>SOURCES OF FUNDS</b>						
<b>RECEIPTS</b>						
WATER SALES	\$ 614,506	\$ 161,221	\$ 147,881	\$ (13,340)	-8.3%	
TAXES	\$ 85,958	\$ 7,163	\$ 6,716	\$ (447)	-6.2%	
READINESS-TO-SERVE CHARGE (RTS)	\$ 80,000	\$ 5,981	\$ 8,548	\$ 2,567	42.9%	(a)
INTEREST ON INVESTMENTS ( 1 )	\$ 43,519	\$ 10,876	\$ 10,444	\$ (432)	-4.0%	
POWER RECOVERY AND MISCELLANEOUS	\$ 16,345	\$ 5,502	\$ 4,698	\$ (804)	-14.6%	(b)
BUSINESS DEVELOPMENT	\$ 3,300	\$ 753	\$ 261	\$ (492)	-65.4%	
<b>TOTAL RECEIPTS</b>	<b>\$ 843,628</b>	<b>\$ 191,496</b>	<b>\$ 178,548</b>	<b>\$ (12,948)</b>	<b>-6.8%</b>	
PROJ USE OF PRIOR YEAR PAYG FUNDS	\$ 15,000	\$ 10,164	\$ 10,164	\$ -	-	
PROJ USE OF DEBT PROCEEDS FOR CONSTRUCTION	\$ 450,600	\$ 119,729	\$ 152,642	\$ 32,913	27.5%	(c)
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$ 1,309,228</b>	<b>\$ 321,389</b>	<b>\$ 341,354</b>	<b>\$ 19,965</b>	<b>6.2%</b>	
<b>USES OF FUNDS</b>						
<b>EXPENDITURES</b>						
STATE WATER CONTRACT	\$ 240,255	\$ 99,552	\$ 100,244	\$ (692)	-0.7%	
WATER TRANSFERS \ OPTIONS	\$ 5,100	\$ 3,289	\$ 3,289	\$ -	-	
COLORADO RIVER SUPPLIES	\$ 35,650	\$ 8,136	\$ 6,164	\$ 1,972	24.2%	(d)
DEBT SERVICE	\$ 245,050	\$ 117,883	\$ 118,018	\$ (135)	-0.1%	
PAYG CONSTRUCTION FROM CURRENT YEAR RECEIPTS	\$ 90,000	\$ 27,899	\$ 10,164	\$ 17,735	63.6%	(e)
UNION STATION HEADQUARTERS & OTHER ( 2 )	\$ 22,422	\$ 5,606	\$ 10,567	\$ (4,962)	-88.5%	(f)
REIMBURSEMENT FROM MWDAFC	\$ (129,000)	\$ -	\$ -	\$ -	-	
MWD O&M	\$ 223,252	\$ 50,972	\$ 59,332	\$ (8,361)	-16.4%	(g)
OPERATING EQUIPMENT	\$ 9,211	\$ 2,303	\$ 2,533	\$ (230)	-9.9%	
LOCAL RESOURCES PROGRAM - NET	\$ 19,260	\$ 4,397	\$ 1,730	\$ 2,667	60.7%	(h)
<b>SUBTOTAL</b>	<b>\$ 761,200</b>	<b>\$ 320,036</b>	<b>\$ 312,041</b>	<b>\$ 7,995</b>		
PAYG CONSTRUCTION FUNDED FROM PAYG RESERVES	\$ 15,000	\$ -	\$ -	\$ -	-	
DEBT-FINANCED CONSTRUCTION EXPENDITURES	\$ 450,600	\$ 119,729	\$ 152,642	\$ (32,913)	-27.5%	(i)
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,226,800</b>	<b>\$ 439,765</b>	<b>\$ 464,683</b>	<b>\$ (24,918)</b>	<b>-5.7%</b>	
WATER TRANSFER DEPOSITS ( 3 )	\$ 18,900	\$ -	\$ -	\$ -	-	
ADJUSTMENTS IN RESERVES ( 4 )	\$ 4,395	\$ -	\$ -	\$ -	-	
INCREASE IN RATE STABILIZATION FUNDS ( 4 )	\$ 59,133	\$ -	\$ -	\$ -	-	
<b>TOTAL USE OF FUNDS</b>	<b>\$ 1,309,228</b>	<b>\$ 439,765</b>	<b>\$ 464,683</b>	<b>\$ (24,918)</b>	<b>-5.7%</b>	
<b>Net Sources / (Uses) of Funds</b>	<b>\$ -</b>	<b>\$ (118,376)</b>	<b>\$ (123,329)</b>	<b>\$ (4,953)</b>	<b>-</b>	

*Note: Trust Account Transactions are not reflected in this report. Minor differences are due to rounding.*

- ( 1 ) Excludes interest earned on construction and trust funds.
- ( 2 ) Other expenditures include cash activity in the General Fund for reimbursable Projects. Actual expenditures exclude the \$10.2 million payment for property in Ventura County for desalination facilities. Proceeds from the sale of the Bolsa Chica property were used to make the payment.
- ( 3 ) Deposit to the Water Transfer Fund during the fiscal year net of expenditures.
- ( 4 ) Actual amounts to be determined at end of fiscal year.
- ( 5 ) Variance explanations will be provided at the end of each quarter.